

Message Text

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TO AMEMBASSY ISLAMABAD IMMEDIATE

C O N F I D E N T I A L STATE 176980

STADIS/////////////////
PASS TO UNDER SECRETARY NEWSOM

E.O. 11652: GDS

TAGS: EFIN

SUBJECT: 1974 PAKISTAN DEBT RESCHEDULING

REFTEL: (A) STATE 172797, (B) TEHRAN 06529, (C) STATE
176293

1. FOLLOWING RESPONSE TO YOUR QUESTION IN PARA 2 OF REF B.
2. TREASURY (UNDER SECRETARY SOLOMON) CONTINUES TO HOLD TO ITS VIEW THAT THE U.S. GOVERNMENT SHOULD NOT ACCEPT THE PAKISTAN POSITION THAT THE 1974 DEBT RESCHEDULING INCLUDED DEBTS GUARANTEED BY THE PAKISTAN GOVERNMENT. HOWEVER, IF IT IS YOUR JUDGMENT THAT A SIGNIFICANT REPEAT SIGNIFICANT POLITICAL BENEFIT WILL BE DERIVED FROM A COMPROMISE ON THIS ISSUE, THEN TREASURY WILL NOT OBJECT TO YOUR INFORMING THE
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GOP OF OUR WILLINGNESS TO ACT IN ACCORDANCE WITH THE
PAKISTAN INTERPRETATION.

3. SHOULD YOU DECIDE TO MENTION THE 1974 RESCHEDULING ISSUE, WE SUGGEST YOU DO SO IN YOUR MEETING WITH GHULAM ISHAQ, MINISTER OF FINANCE. THE WORDING YOU USE WILL BE EXTREMELY IMPORTANT. THE ISSUE IS HIGHLY TECHNICAL AND

MISUNDERSTANDINGS COULD CAUSE CONTINUING PROBLEMS. IT IS IMPORTANT TO MAKE CLEAR THAT THIS ACTION RELATES SOLELY TO

THE PAST (1974) AGREEMENT AND HAS NO REPEAT NO EFFECT ON PAKISTAN'S REQUEST FOR A NEW DEBT RESCHEDULING. WE SUGGEST THAT YOU APPROACH THE TOPIC IN A VERY BROAD MANNER AND REFER THE DETAILS TO SPECIALISTS ON THE ISSUE.

4. YOU MAY WISH TO USE THE FOLLOWING TALKING POINTS.

A. THE 1974 IBRD SPONSORED DEBT RESCHEDULING AGREEMENT RELATED TO DEBT SERVICE FALLING DUE OVER A FOUR YEAR PERIOD (JULY 1, 1974 - JUNE 30, 1978).

B. IN THE USG VIEW, THE AMOUNT CREDITORS WERE TO RESCHEDULE WOULD BE COMPUTED ON THE BASIS OF DEBT SERVICE FALLING DUE ON CREDITOR GOVERNMENT LOANS OR LOANS GUARANTEED BY CREDITOR GOVERNMENTS.

C. PAKISTAN HAS DISPUTED THIS INTERPRETATION, AND ARGUED THAT LOANS GUARANTEED BY THE GOP SHOULD ALSO HAVE BEEN INCLUDED IN THE COMPUTATIONS, EVEN IF THEY WERE NOT GUARANTEED BY CREDITOR GOVERNMENTS.

D. GIVEN THE EXCEPTIONAL CIRCUMSTANCES SURROUNDING THE 1974 RESCHEDULING, THE USG IS PREPARED TO ACT IN ACCORDANCE
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WITH THE PAKISTAN INTERPRETATION OF THE 1974 AGREEMENT.

E. THE NET EFFECT OF THIS DECISION IS THAT, IN ORDER TO COMPENSATE FOR THE ADDITIONAL AMOUNTS THAT SHOULD HAVE BEEN RESCHEDULED OVER THE LAST FOUR YEARS, THE USG WILL RESCHEDULE \$2.8 MILLION IN USG DEBT SERVICE FALLING DUE IN THE FISCAL YEAR BEGINNING JULY 1, 1978. CHRISTOPHER

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